

HOUSE FINANCE COMMITTEE
February 10, 2011
1:41 p.m.

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CALL TO ORDER

Co-Chair Thomas called the House Finance Committee meeting to order at 1:41 p.m.

MEMBERS PRESENT

Representative Bill Stoltze, Co-Chair
Representative Bill Thomas Jr., Co-Chair
Representative Anna Fairclough, Vice-Chair
Representative Mia Costello
Representative Mike Doogan
Representative Bryce Edgmon
Representative Les Gara
Representative David Guttenberg
Representative Mark Neuman
Representative Tammie Wilson

MEMBERS ABSENT

Representative Reggie Joule

ALSO PRESENT

Representative Kyle Johansen, Bruce Tangeman, Deputy Commissioner, Department of Revenue; Lennie Dees, Master Tax Auditor, Department of Revenue.

SUMMARY

^Transferable tax credit presentation--Lennie Dees, Master Tax Auditor, Department of Revenue

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Co-Chair Thomas introduced the legislators and presentation.

Representative Gara introduced a constituent from his district.

BRUCE TANGEMAN, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE introduced himself. He explained that the inception of tax credits offered in the state was 2006. The tax credit system is complex and dynamic.

LENNIE DEES, MASTER TAX AUDITOR, DEPARTMENT OF REVENUE, introduced the PowerPoint presentation "Production Tax Credits (copy on file)."

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Mr. Dees discussed Slide 3: "Types of Production Tax Credits,"

Credits which may be taken against oil and gas production taxes include:

- Capital Expenditure Credits
- Alternative Tax Credits for Oil and Gas Exploration
- Net Operating Loss ("NOL") Carry Forward Credits
- Transitional Investment Expenditure ("TIE") Credit
- Additional Nontransferable Tax Credits
- Well Lease Expenditures Credit
- Cook Inlet Jack-up Rig Credit

Representative Guttenberg asked about industry standards for the mentioned credits. He asked if the credits were conjured in Alaska. Mr. Dees responded that the capital expenditure credits utilize the same standards required by the internal revenue code.

Representative Gara asked about credits that apply to the North Slope. He asked how credits might be combined for a field such as Prudhoe Bay.

Mr. Dees replied that for Prudhoe Bay, a currently developing oil field, the most applicable credits are the capital expenditure credit, net operating loss credit, and the additional nontransferable credit. The alternative credits for oil and gas exploration are available for a new discovery outside of an existing unit.

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Representative Gara pointed out that some of the credits are observed as percentages and others as dollars. Mr. Dees agreed. He noted that the capital expenditure credit is a 20 percent credit. The alternative tax credit for oil and gas exploration is either a 30 or 40 percent credit depending on the project. The net operating loss credit is a 25 percent credit. The transitional investment expenditure credit is a credit based on a percentage of capital expense occurring prior to the Petroleum Production Tax (PPT). The additional non-transferable tax credit is strictly based on dollars. The small producer credit is a \$12 million credit for companies producing less than 50 thousand barrels of oil per day. He noted that the well lease expenditure credit is based on 40 percent of certain types of well lease expenditures and is applicable in areas south of 68 degrees north latitude, which is considered the North Slope. He added that the Cook Inlet jack-up rig credit is based on a percentage of the first \$25 million of expenditures for the first three taxpayers using a jack up rig in the Cook Inlet area.

Representative Gara discussed the various combinations of credits that might provide even greater advantages for the oil companies.

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Mr. Dees discussed Slide 4: "Timelines for Production Tax Credits." He explained that the credits came into existence with PPT. He detailed the various credits: The net operating loss credit is offered when a company suffers a loss and their lease expenditures exceed revenues. The credits underwent changes with ACES. The statute was changed so only 50 percent of the tax liability could be taken in the year earned. The well lease expenditure credit became effective July 1, 2010 for intangible drilling costs and seismic activity within an existing unit in areas south of the North Slope.

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Mr. Dees continued that the Transitional Investment Expenditure Credits (TIE) credits were effective January 1, 2008 and available to those companies or producers without prior production. He mentioned the new area development credit for \$6 million came into existence at the inception of the Alaskan Clear and Equitable Share (ACES). The small

producer credit of \$12 million came into existence at the inception of PPT. He finished with the Cook Inlet jack-up rig credit enacted last year and effective July 1, 2010.

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Vice-chair Fairclough asked if the new area development credit began with ACES or PPT. Mr. Dees replied PPT.

Mr. Dees addressed Slide 5: "Types of Production Tax Credits,"

Capital Expenditure Credits - (AS 43.55.023(a) (1))

- ❑ 20% of qualified capital expenditures (QCE)
- ❑ QCE include drilling, construction of facilities, new equipment, etc.
- ❑ Same expenditures may also qualify for NOL Carry Forward Credit
- ❑ Same expenditures do not qualify for exploration credit
- ❑ Must be spread over 2 years (except for expenditures incurred south of 68 degrees North latitude - effective July 1, 2010)
- ❑ Credits may be cashed or transferred

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- Credits may be cashed or transferred

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Mr. Dees discussed Slide 6 "Types of Production Tax Credits,"

Exploration Credits

- ❑ Two Main Types
 - Capital Credit for Exploration Activity
43.55.023(a) (2) (20%)

- Alternative Tax Credits for Oil and Gas Exploration 43.55.025 (30%-40%)

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Mr. Dees discussed Slide 7: "Types of Production tax Credits,"

Capital Credit for Exploration Activity 43.55.023(a)
(2)

- 20% of qualifying expenditures
- Qualifying expenditures related to geologic and geophysical exploration, or in connection with an exploration well
- Must be spread across 2 years (except for expenditures incurred south of 68 degrees North latitude - effective July 1, 2010)
- Same expenditures may also qualify for NOL Carry Forward Credits
- Credits may be cashed or transferred

Mr. Dees discussed Slide 8: "Types of Production tax Credits,"

Exploration Credits

- Two Main Types
 - Capital Credit for Exploration Activity under 43.55.023(a) (2) (20%)
 - Alternative Tax Credits for Oil and Gas Exploration under 43.55.025 (30%-40%)

Mr. Dees discussed Slide 9: "Types of Production tax Credits,"

Alternative Tax Credits for Oil and Gas Exploration - 43.55.025

- 30% - 40% of qualified expenditures depending on well location and proximity to existing wells and unit boundaries
- Qualified expenditures include certain expenses associated with seismic and geophysical exploration work, and exploration well drilling
- Same expenditures may also qualify for NOL Carry Forward Credit

- ❑ Same expenditures do *not* qualify for Capital Expenditure Credit
- ❑ To receive credit, taxpayer must provide certain well data to DNR
- ❑ Expires 2016
- ❑ Credits may be cashed or transferred

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Representative Gara asked about the various credits and the existing wells. He asked if the alternative tax credit for oil and gas exploration was applied for often. Mr. Dees replied yes.

Representative Gara asked to know the location of the credit's use. Mr. Dees replied that many areas in the North Slope utilized the alternative tax credit. Representative Gara asked if it was used in an area where development has occurred. Mr. Tangeman offered to provide information to the committee at a later date.

Representative Doogan asked why the credits were stackable. Mr. Dees responded that the Alaska statutes allow the stacking of the credits. He stated that exclusion by statute is necessary to prevent the stacking of the credits. He provided the example of the Cook Inlet jack-up rig credit where those credits obtained in the section cannot be used in AS 43.55.023.

Mr. Tangeman added that the goal of the stackable credits was to provide further incentive to the oil companies.

Representative Guttenberg asked about coordination and communication between DOR and the Department of Natural Resources (DNR). Mr. Dees replied that the alternative tax credit requires that an audit is performed prior to issuing the credit. An application received requires the sharing of information with DNR as part of the process.

Vice-chair Fairclough asked if it was typical for credits to be stacked on national and international levels. Mr. Dees replied that only Alaska offers this type of production tax statute.

Vice-chair Fairclough asked if the purpose of the statute was to provide incentive to the oil companies. Mr. Dees stated that he was not able to comment.

Vice-chair Fairclough pointed out that the particular incentive was to inspire exploration and must be used for development past the 2008 cycle.

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Mr. Dees responded yes, the 30 to 40 percent credit requires activity beyond July 1, 2008. An application for a period prior to July 1, 2008 falls under the old PPT statute granting 20 to 40 percent.

Vice-chair Fairclough concluded that the legislature intended that the tax credits incentivize a pipeline that was in decline.

Representative Costello asked if any tax credits apply specifically to fields that are not unitized. Mr. Dees responded that the credits apply to leases and properties within the state. Some cases deal with leases and others with units. These particular credits imply that they include only activity that is outside of the unit.

Representative Costello asked how often companies transfer tax credits. Mr. Dees replied occasionally. He claimed that activity waned in recent years. He opined that the change may have inspired last year's law eliminating the 24 month reinvestment requirement. Representative Costello asked the reason for the waning. Mr. Dees believed that reinvestment might be the reason for the waning.

Mr. Dees commented that under both PPT and the original ACES a person with a transferable tax credit certificate who wished to sell to the state must show that they spent an additional percentage of qualified capital expenditures in order for the state to cash the credit out. The 24 month reinvestment requirement became a problem for some companies.

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Representative Neuman wondered if specific well data was sealed from other companies. Mr. Dees replied that the well data is available after a period of time.

Co-Chair Thomas presented a scenario to explain the disclosure of well data.

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Representative Gara recalled that in 2007, legislators were told that the remaining oil on the North Slope was more difficult and expensive to locate and that the stacking of credits combined with deductions were necessary to provide generous investment incentives to spur development. He commented that oil production has declined since 1990.

Mr. Tangeman offered to speak to the number of credits applied for, but he believed that the producers must speak to the effectiveness of the process.

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Mr. Dees discussed Slide 10: "Types of Production tax Credits,"

Alternative Tax Credits for Oil and Gas Exploration - 43.55.025

- ❑ 30% - 40% of qualified expenditures depending on well location and proximity to existing wells and unit boundaries
- ❑ Qualified expenditures include certain expenses associated with seismic and geophysical exploration work, and exploration well drilling
- ❑ Same expenditures may also qualify for NOL Carry Forward Credit
- ❑ Same expenditures do *not* qualify for Capital Expenditure Credit
- ❑ To receive credit, taxpayer must provide certain well data to DNR
- ❑ Expires 2016
- ❑ Credits may be cashed or transferred

Mr. Dees addressed Slide 11: "Types of Production tax Credits,"

Transitional Investment Expenditure (TIE) Credits 43.55.023(i)

- ❑ Credit equals 20% of qualifying capital expenditures:
 - incurred between March 31, 2001 and April 1, 2006, and

- not exceeding 10% of the capital expenditures incurred between March 31, 2006 and January 1, 2008.
- Revised under Aces to cover only producer or explorer not having production prior to January 1, 2008
- Credits are *not* transferable and may *not* be carried forward beyond 2013
- Same capital expenditures may *not* qualify for exploration credit under 43.55.025

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Representative Guttenberg asked about the point "not exceeding 10 percent of the capital expenditures incurred between March 31, 2006 and January 1, 2008." He wondered if the state completed the 2006 North Slope production audits. Mr. Dees replied that the department is "substantially complete" with the 2006 audit.

Representative Guttenberg clarified that the state does not have all of the necessary information to aid in future policy. Mr. Dees concurred.

Mr. Dees discussed Slide 12: "Types of Production tax Credits,"

Additional Nontransferable Tax Credit- 43.55.024(a)

- Referred to as "New Area Development" credit
- Up to \$6 million
- Available for companies producing from leases or properties outside of Cook Inlet and North Slope
- Credit can only be applied against tax liability
- Expires 2016 or 9 years after first commercial oil or gas production if before May 1, 2016
- Credits may *not* be cashed or transferred or carried forward

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Mr. Dees discussed Slide 13: "Types of Production tax Credits,"

Small Producer Credit - 43.55.024(c)

- ❑ Up to \$12 million, depending upon level of production
- ❑ Available for companies producing less than 100,000 bbl/day of oil BTU-equivalent
- ❑ Production not restricted by region
- ❑ Credit can only be applied against tax liability
- ❑ Expires 2016 or 9 years after first commercial oil or gas production if before May 1, 2016
- ❑ Credits may not be cashed or transferred or carried forward

Representative Guttenberg asked why the small producer credit is not transferred, carried forward, or cashed.

Mr. Dees replied that the credit is not based on a level of capital expenditure. He noted that the credit is based on production of less than 50 thousand barrels per day. He added that AS 43.55.024(a) is based on production outside of Cook Inlet or the North Slope.

Representative Gara asked if the credit applies to fields already in production prior to the inception of the credit. Mr. Dees replied yes, although expiration occurs after nine years.

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Representative Gara pointed out that only two fields produce more than 100 thousand barrels per day on the North Slope. He noted that the credit applies to virtually every field except for Kuparuk and Prudhoe Bay. He opposed incentives that provide money for production already in place. Mr. Dees concurred. He added that the credit has little impact on the state budget because a company can only apply for the amount of their tax liability.

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Mr. Dees noted Slide 14: "Types of Production tax Credits,"

Well Lease Expenditure Credit - 43.55.023(1)

- ❑ 40% of well lease expenditures incurred in the state south of 68 degrees north latitude
- ❑ Must be intangible drilling costs or geological / geophysical exploration

- ❑ Credit may be applied against tax liability, or certificated and cashed or transferred to another taxpayer

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Representative Guttenberg asked if the well lease expenditure credit had been used. Mr. Dees replied that the credit went into effect July 1, 2010. He stated that the department received a few applications for the credit. The companies are required to provide their yearend true-up filings with the department on March 31, 2011.

Representative Guttenberg stated that the purposes for the credits and lease expenditures were to encourage the industry to produce, but the credits were for required activities.

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Mr. Dees continued with the presentation with slide 15: "Types of Production Tax Credits,"

Cook Inlet Jack-Up Rig Credit - 43.55.025(1)

- ❑ Credit of 100%/90%/80% of up to \$25 million each of exploration expenditures for first 3 unaffiliated persons drilling wells using the same jack up rig penetrating and evaluating prospects in the pre-Tertiary zone.
- ❑ Taxpayer obtaining credit may not claim .023 credit for same expenditures
- ❑ 50% of credit to be repaid over 10 year period if well yields sustained production

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Representative Neuman queried the effective date of March 31, 2010, and wondered if there was an application deadline. Mr. Dees replied that he was not aware of a deadline.

Representative Neuman asked about a specific deadline for the drilling of the wells. Mr. Dees stated that he was not aware of a specific deadline in the statute.

Representative Neuman wondered about protection for the state when various wells are operating under one corporate

umbrella. Mr. Tangeman stated that the question was better suited for the Department of Law (DOL). He stated that the deadline applied only for the first well drilled. Representative Neuman wondered if wells were considered separate if they came off a lateral line from the main well. Mr. Dees was unsure.

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Vice-chair Fairclough asked if repayment of 50 percent of the credit over ten years calculated \$25 million for the first person on the scene. Mr. Dees replied that if the well was successful and sustained commercial production, then the repayment would be 50 percent of the \$25 million for the first well. The second well is eligible for \$22.5 million.

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Mr. Dees discussed Slide 17: "Credits Applied Against Production Tax Liability,"

Cook Inlet Jack-Up Rig Credit - 43.55.025(1)

- ▣ Credit of 100%/90%/80% of up to \$25 million each of exploration expenditures for first 3 unaffiliated persons drilling wells using the same jack up rig penetrating and evaluating prospects in the pre-Tertiary zone.
- ▣ Taxpayer obtaining credit may not claim .023 credit for same expenditures
- ▣ 50% of credit to be repaid over 10 year period if well yields sustained production

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Mr. Dees displayed Slide 18: "Production Tax Credits Applied Against Tax Liability (Fiscal Year)." He explained that that when the taxpayer performs its monthly installment or annual tax filing, they withhold the amount of the credit taken. The deduction comes from the amount paid to the state. The table illustrates the type of credits seen on some tax filings.

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Mr. Dees discussed Slide 19: "Production Tax Credits Applied Against Tax Liability."

Representative Gara pointed out Slide 18, and queried the TIE credit. The credit was for the prior year's investments. He remarked that by removing the TIE credits, capital credits have raised every year since 2008. Mr. Dees agreed with Representative Gara's assessment.

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Representative Guttenberg queried the exploration credits, and the percentage of expenditures for the amount in the years represented. He wished to assess the amount of exploration. He remarked on seismic research in Alaska. He requested further conversations with DNR regarding the amount of exploration and the representative credits.

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Mr. Dees continued with Slide 21: "Timeline for processing of Transferable Credit under AS 43.55.023 (a)." He explained that the explorers who apply for those certificates undertake the illustrated timeline. Under the established regulations, taxpayers can apply for certificates on a quarterly basis. The graph exhibits the timeframe that DOR has to complete the process and deliver the credits. The department has 120 days after March 31st following the year that the expenditures were incurred to either grant or deny the tax credit. The department endeavors to hurry the process further than the statute mandates. Once the taxpayer receives their transferable tax certificate, they are able to apply for cash. Typically, from the time that an expenditure is made to the time that cash is applied for is 18 months.

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Representative Guttenberg wondered if the timeline is shortened with the expertise and efficiency of the master auditors. Mr. Dees responded that the processes have been streamlined with additional auditors. He noted that a department group was created to address tax credit applications. He pointed out that audit work is currently performed up-front, but the statutes allow audit rights at any time. A due diligence review is performed following the application process. Certain information of the expenditures is requested. He noted that the formal audit process comes later.

Representative Guttenberg asked again about the 2006 audits. He wondered if audits would be performed faster in the future.

Mr. Dees responded that a tax credit application is different than a filing. He noted that tax filings are for producers that pay the tax liability and perform the true up. The tax credit applications exist for those taxpayers without a tax liability. He noted the right to audit after the fact, but in most cases, the due diligence review is sufficient.

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Representative Neuman asked if a time limit for the mentioned look-back period was applicable. Mr. Dees replied that the assessment period for a tax filing is six years. He explained that the tax is calculated on the calendar year and by March 31 of the following year will provide the true-up calculation.

Representative Neuman asked if unpaid taxes require an interest payment. Mr. Dees replied that the department uses the federal short term monthly interest rates.

Representative Gara commented on the gross tax, which was deemed more reliable and required less auditing. He recalled that sufficient auditors were not available to ensure accurate payments for the taxes owed. He asked the department's opinion about the amount of auditors. Mr. Tangeman stated that the audit master positions helped a great deal. He noted that 2006 was the first audit that included a net tax. He believed that the current amount of auditors was sufficient.

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Representative Costello asked the result of the audits. Mr. Tangeman responded that confidentiality issues compromise his ability to disclose the information.

Mr. Tangeman commented on areas that will be contested due to varying interpretations of the statute.

Mr. Dees detailed Slide 22: "Timeline for processing a Transferable Tax Credit Certificate under AS 43.55.023(b)."

He stated that the loss can only be interpreted at the end of the calendar year.

Mr. Dees discussed Slide 23: "Timeline for Application for AS 43.55.025 Alternative Credit for Oil and Gas Exploration." He explained that the taxpayer/producer has six months to file for the credit following completion of the project. If a taxpayer has a tax liability, and they are submitting a claim, they are allowed to offset the claim against the liability. Adjustments in the eventual amount of the credit through audit lead to assessment of the difference.

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Mr. Dees discussed Slide 24: "Transferable Tax Credit Certificates"

Companies may also claim tax credits by applying for a Transferable Tax Credit Certificate (TTCC)

- ▣ Available to companies (explorers) with no tax liability to which credits can be applied
- ▣ Tax Credit Certificates under 43.55.023(a) and (b) must be split or applied over two years (except credits issued for expenditures incurred south of 68 degrees North latitude effective July 1, 2010)
- ▣ May be transferred to another taxpayer or cashed with the state

Mr. Dees discussed Slide 25: "Production Tax Credits Under AS 43.55 Claimed by FY (\$M)." The graph illustrates activity witnessed since the inception of the credits.

Representative Guttenberg asked if the category titled pre-2007 included all activity prior to 2007. Mr. Dees responded yes.

Representative Wilson asked if the legislature could ascertain the effectiveness of specific credits. Mr. Tangeman thought it impossible to tie barrels of oil produced to a certain tax credit. He believed that confidentiality issues would prevent the gleaning of the requested information.

Representative Wilson wished to ascertain the effectiveness of certain tax credits. Mr. Tangeman responded that a decline curve would be difficult to employ in deducing barrels of oil produced.

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Representative Neuman asked if the years illustrated were fiscal years or calendar years. Mr. Tangeman responded fiscal years.

Representative Neuman asked about the story told by the data about successful investments in Alaska. Mr. Tangeman responded that tax credits are applied for and used. Activity occurred for tax credit applications. He believed that DNR could provide additional information regarding production. He claimed that DOR can show how much of the credit system is used. The results of the credit system are not the specialty of DOR.

Representative Gara commented on the net operating loss credit. He asked about the money spent on the operating loss credits and whether the wells became productive. Mr. Tangeman offered to research the question and report to the committee.

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Co-Chair Thomas asked if a tax break for royalties might simplify the process for the oil industry. Mr. Tangeman stated that the tax credits are observed during the current meeting, but the producers might speak to the needs of the industry.

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Representative Gara commented that DOR reported recently that capital credit applications were working. The governor's proposal claims that the current system is not effective. He stated that he was provided with various answers from the department.

Mr. Tangeman stated that the system itself is working. The industry is taking advantage of the credits offered. Capital investment was up. The individual successes are difficult to discern. He stated that the credits and tax rates are an important equation.

Representative Guttenberg added that the state wishes to see an increase in exploration. He wondered if the credits were effective in increasing production. He asked where the revenue forecast indicated that the credits have the desired effect. Mr. Tangeman responded that the system is working for the department. He was not prepared to discuss the results. He stated that he would discuss results when the governor's bill was presented.

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Co-Chair Thomas commented on the increased use of tax credits.

Mr. Tangeman stated that he relies on the industry to provide information about their plans. The credit estimates are based on industry testimony.

Mr. Dees added that Slide 25 depicted information received through January 4, 2011. He expected to receive more applications.

Mr. Dees introduced Slide 26: "Transferable Tax Credit Certificates." He commented that the chart was a graphical depiction of the previous slide.

Mr. Dees discussed Slide 27: "Transferable Tax Credit Certificate Activity by Fiscal Year (\$M). He explained that the slide depicts the dollar value issued each fiscal year, the amount refunded, and the amount transferred or applied to taxes. As of February 4, 2011, the state had approximately \$73 million worth of transferable tax credit certificates outstanding and available to be submitted for cash.

Representative Guttenberg asked if the fiscal year basis is consistent throughout industry and the departments.

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Mr. Dees replied that most taxpayers operate on a calendar year basis. The state's basis is converted to the fiscal year. He noted that the refunded amounts tie to the amount paid in fiscal years. With the elimination of the 24 month reinvestment period, the state encountered increased activity in the processing the claims for cash refunds of the credit certificates. The projection is for a \$430

million impact of production tax credits. He added that the department uses the fiscal year to interpret information viewed on other state financial statements.

Mr. Dees discussed Slide 29: "Cash Refunds History,"

Cash Refunds Governed by AS 43.55.028:

- To cash must be usable against tax liability
- Must show subsequent (24 months) QCEs or lease bids equal to cash sought (repealed in 2010)
- Have a zero tax owed in current and past years
- Have no more than 50,000 BOE/d

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Mr. Dees discussed Slide 30: "Cash Refunds History." The slide illustrated the tax credits purchased by fiscal year from 2007 through 2/4/11.

Mr. Dees discussed Slide 31: "Cash Refunds History." The slide provides an overview of the oil and gas tax credit fund. The current balance of the fund is \$75 million.

Representative Guttenberg wondered what would occur if further appropriations were not made. Mr. Dees responded that the statute reads that the state would refund tax credits as the appropriations are available.

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Mr. Dees illustrated Slide 32: "Impact of Production Tax Credits Total State Stimulus." He explained that the slide depicts the total impact of the stimulus since the inception of PPT on a fiscal year basis.

Mr. Dees introduced Slide 33: "Capital Expenditures by Year (\$M)."

Representative Doogan referred to Slide 31 and understood that the industry spent \$2.7 billion in capital expenditures and \$900 million was then refunded by the state. He deduced that the state covers one third of the costs with the oil industry responsible for two thirds of the costs. Mr. Dees pointed out the lag time for the transferrable tax credit certificates. Expenditures that gave rise to the credits occurred in earlier periods. He did not recommend the comparison.

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Representative Doogan asked if the numbers presented represent a one third, two third comparison. Mr. Dees concurred.

Representative Neuman asked about credits sold from one company to another. He wondered about the average price for of the credits. Mr. Dees replied that he was unaware of the average price because the transaction is between two private companies. The state honors the certificate at full value. Mr. Tangeman added that the change in the law states that a company is not required to hold the certificate for a full 24 months and then reinvest the like amount. The certificates can be turned in for cash immediately, thus eliminating the market.

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ADJOURNMENT

The meeting was adjourned at 3:32 PM